T2 RL

TRANSFORMATION SERIES
REPORT FOUR

The Impact of OOSD on Travel Sellers

JULY 2023

Trusted. Impartial. Expert

Introduction

This is the fourth in T2RL's series of reports on the transformation that is happening in the way that airlines sell and deliver their services.

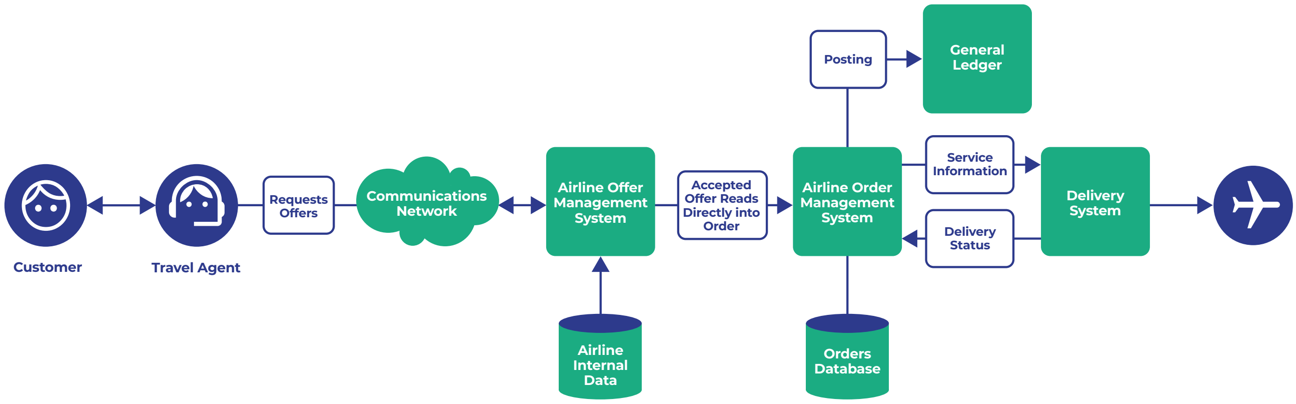
There is a growing consensus that traditional processes based on technologies dating back to the middle of the 20th century need a significant update. In these reports we describe the new structures and, more importantly, describe the path that the industry will have to take in order to implement them.

This instalment considers the impact of the changes on those organisations that sell on behalf of the airlines. These are primarily travel agents of various kinds, including the large Online Travel Agencies (OTAs),the major Travel Management Companies (TMCs) which manage end to end travel on behalf of large corporations, government agencies and businesses, and the retail travel agencies that serve a mix of business, leisure and inclusive tour travel.

Each type of travel agency will be impacted in different ways and already some of the biggest of them have been vocal in objecting to aspects of the transformation. T2RL believes that just as for the airlines themselves there will be a possibly bumpy transition but that the new ways of working will offer opportunities to those travel agents that are prepared and able to embrace change.

The New Steady State

Simplified Process and Data Flows in Offer/Order Bookings



The diagram above has appeared in all the reports in this series. In previous instalments we have concentrated on the components from the airline's Offer Management system onwards. This reflects the way that IATA and its member airlines have presented the new world but in reality there are layers of technology and business rules, including multiple connections to airlines and other travel content suppliers, before any request gets sent to any airline.

In this report we turn our attention to the customer and the travel agent. Travel agents manage a complex ecosystem of content sources, customer data, business rules and back-office fulfilment and billing in the most efficient and automated way possible. We also consider the roles of the intermediaries which play a part in facilitating some of the transactions between agent and airline.

The Role of the Travel Agent

Travel agents have sold airline inventory more or less since the start of the industry a century ago. The processes and systems that they have used have evolved over time but the basic relationship has stayed the same. Mainstream travel agents sell on behalf of the airlines. They do not buy airline inventory and resell it to retail customers.[1] Given that this is the relationship it is perhaps understandable that many airline managers assume that airlines should own and manage the booking process and records. Travel agents do not generally agree.

It is important to remember that there are many different types of travel agents. These include Online Travel Agents (OTAs) that sell to customers booking on the Web, often in direct competition with the airlines' own booking sites. These agents also book hotels and other content alongside flights. Large Travel Management Companies (TMCs) primarily serve the needs of corporate travellers while independent agencies have a mix of business and leisure clients, served in a variety of channels including online, on the phone and in person at retail locations. In today's world most travel agents are connected to one or more of the Global Distribution Systems (GDSs). Many are also connected to a range of other content sources. They create Passenger Name Records (PNRs) and tickets. The air components are often booked in the GDS, and the GDS creates PNRs in the airlines' systems as well as records in the systems of hotels and some other ground providers. The GDS PNR typically holds more information than the one created in the airline's system so it is easy to understand why airlines see advantages to having agents create Orders directly in the airline system. Agents may book some non-air products such as hotels and rail tickets in the GDS and store them alongside flights in the GDS PNR. The GDS also provides data feeds to the agents' mid and back-office systems and in some cases the GDS provides those systems as well. Here a whole host of processes are managed such as consolidated billing and expense tracking.

As well as booking flights and travel products, agents perform other vital functions for their clients. These include negotiation of rates with travel providers, management of travel policy, tracking of travel budgets and financial reporting, management of expense reporting, travel health and documentation management, keeping track of travellers for the purposes of fulfilling duty of care, making changes to bookings when travel requirements change and managing payments and refunds for all services. The relative importance of these functions varies according to the agent's business model, location and clientele. Corporate TMCs have sophisticated capabilities for all of them while many leisure-oriented agencies don't get involved with some functions at all. All agencies take payment from customers and submit it to travel providers either directly or via industry clearing houses such as IATA's Billing and Settlement Plans (BSPs) and the Airlines Reporting Corporation (ARC) in the USA.

.

[1] As always there are exceptions but we are considering the mainstream processes in this report

Airline Ambitions for OOSD

Since the establishment of the GDSs as independent entities in the 1990s[2] many airlines have become frustrated at the control over the distribution channel that they exercise and the technical constraints of a system where a third party constructs the airline Offer. This has been one of the drivers for the development of OOSD in which airlines create Offers without reference to any external database and record Orders in their own systems.

> This means that the airline system is the repository for all the customer information, which in theory at least should enable the airline to simplify processes, provide better servicing across channels and improve relationships with customers.

> A further ambition of many airlines is to greatly increase their ability to sell so-called ancillary products to their customers.

While these ancillaries are flight-related like baggage, seat selection and priority boarding there will be little change but airline ambition goes much further. Many airlines are making plans to offer other travel products like packaged hotel space and train tickets, to sell the entire journey end to end. Some are going even further to offer completely non-travel products like clothing, luggage and electronics. We have even heard of an airline that offered to sell (not rent!) a car in flight which would be delivered to the customer on arrival.[3]

> Many of the airlines' ambitions may already be realised in their direct channels but when selling through travel agencies things are not so straightforward.

We should state that although the overall vision for OOSD does refer to airlines offering a range of non-air ancillaries, it is not clear to us at this stage whether airlines are expecting travel agencies to source these services from airlines. So far we have not seen examples of agencies doing this.

[2] Prior to that time the GDSs were owned by airlines, either by a single airline like American (Sabre) or by groups of airlines (Amadeus, Galileo, Worldspan)

[3] This was a short-lived promotion by Air Baltic. The idea did not catch on.

Who Owns the Customer?

The question of who owns the customer is one that has seen much discussion in recent years. In T2RL's view it is a question whose relevance has diminished over time.

> In the modern world, the customer owns the customer.

Customers share information with commercial companies according to their own priorities. Many will be quite happy to have a direct relationship with an airline especially if they believe they are getting something in return. Others strongly prefer to work with an intermediary who can manage multiple relationships with airlines and other travel providers. Some will do both at different times and in different circumstances.

> A better question than who owns the customer is "Who owns the Order"?

For direct channel sales there is no question about it. The airline has the customer relationship and with it owns the Order. In the agency channel on the other hand travel agents are in no doubt at all. They have the customer relationship and they should own the Orders that they create. In all probability agents will only be interested in booking airline services from airlines. Hotels, trains, car rentals and other travel services will be booked elsewhere, possibly in the GDS and possibly directly with the suppliers.

Once a critical mass of airlines has switched to OOSD there will inevitably be a fragmentation of supply. We are already seeing this to a small extent with the early adopters of New Distribution Capability (NDC) direct connects but it is likely to increase as more airlines sell more inventory using Offers and Orders. Travel agencies will need the ability to aggregate all the bookings they make on behalf of a customer into a central repository with new capabilities which will take the place of today's GDS PNR. One candidate for this role is an enhanced GDS PNR and this will surely be offered by the GDS companies.

However it may not be the only option.

The Role of the GDS in an OOSD World

Despite the ambitions of some in the airline industry a large number of travel agents expect that their access to the world of OOSD will be facilitated by the GDSs. In the last couple of years there has been a significant uptick of activity around NDC connectivity between airlines and GDSs.

> NDC is an essential precursor to OOSD so this indicates that the GDSs expect to continue to play a central role in the distribution channel and will invest in the required technology to maintain their strong position.

In the traditional GDS model the master PNR is the one in the GDS's database. It records all the bookings that an agent has made via the GDS including air segments and other travel services. Airlines and travel providers receive a subset of the information from the GDS PNR to store in their own booking systems. The exact amount of data that the airlines receive, can vary according to the terms of the contract between the parties as well as the airline's technology. As a minimum it contains the segments booked on that airline, the air segment (if any) that precedes the airline's flights, the name of the passenger(s) and the identity of the agent who has made the booking. IATA accredited travel agents are also required to ask customers if they wish their contact information to be passed to the airline and to pass it through if the customer agrees.[4]

The extent to which PNRs continue to synchronise over the lifecycle of a trip varies. For example Amadeus GDS and Amadeus hosted carriers can see pretty much everything, but in other cases there may still be no PNR synchronisation, meaning that the agency cannot see changes made within the operational window. The lack of real-time information provided to the agent as well as the variable quality of passenger contact information causes headaches for all involved during irregular operations.

> In the OOSD world the expectation by airlines is that air segments will be booked directly into an airline's Order Management System (OrMS) and there will be no GDS PNR

This will be the case even if the airline Offers are received via the GDS and the Order Creation transactions are routed to the airline via the GDS. Assuming that this is what is implemented it implies that the travel agent will have to have its own repository to store airline Orders – or at the very least an index of Order IDs.

Some segments will continue to be created in the GDS and stored in a GDS PNR, and all content will continue to be aggregated for management and billing purposes by the agent.

> This situation is unsatisfactory from the point of view of travel sellers

[4] This is mandated by IATA Resolution 830d

They need to have a single repository for all the information relating to a customer's journey, regardless of its source. Some have this in their mid-office today. This may be integrated with the GDS so that updates are recorded automatically, but changes to bookings can't be made there. The agent has to process them back at the booking source whether that be in the GDS on the airline's website or portal or on any of the other travel providers portals.

Some of those large and sophisticated agencies will be able to build on today's mid-office functionality to include information from airline Orders but many smaller agents will look to their GDS to provide the service. In an OOSD world the GDS PNR may need to evolve into something that looks like a Super PNR.

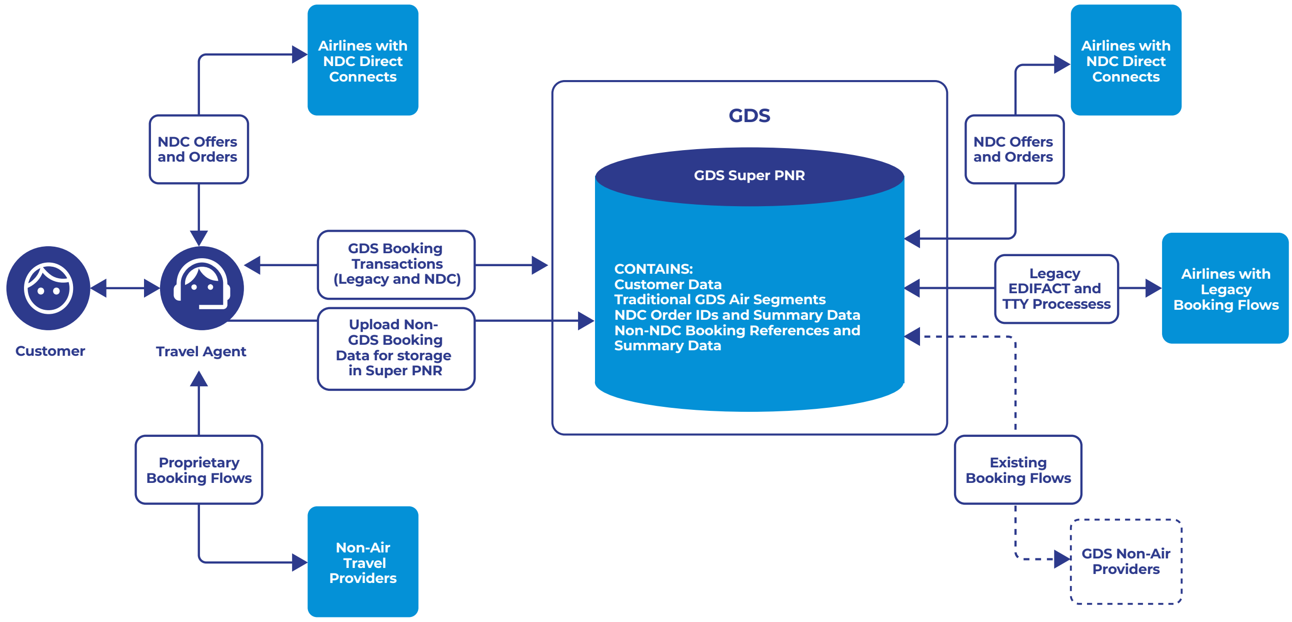
The Super PNR in the GDS

> The idea of a Super PNR has been around for a long time. In broad terms it refers to a record that aggregates bookings from multiple sources into a single repository.

A Super PNR in the GDS will need the capability of recording different types of bookings from different sources including:

- Air segments booked using traditional GDS functionality, including tickets and EMDs
- References to Orders booked in airline OrMs via the GDS
    - Summary information about the content of those Orders
- References to Orders booked in airline OrMs via direct connections or non-GDS aggregators..
    - Summary information about the content of those Orders
- Non-air segments booked in the GDS
- References to bookings made outside the GDS altogether

It will also need to hold customer and travel agency information in the same way that the GDS PNR does today.



From a technology perspective the development needed to create the GDS Super PNR should be quite manageable. GDS companies have largely replaced the mainframe PNR that dates back almost 60 years with modern databases that should allow flexibility and expansion. It should also be possible for the GDSs to continue to provide the data feeds that are essential to travel agency mid and back-office functionality.

The commercial model also needs to evolve. GDS commercial models with airlines have evolved over the years, and in recent times NDC has been a factor, with many airlines agreeing different commercial models and providing different content via NDC compared to legacy protocols. GDS-Agency commercial models are likely also evolving, although this is less visible in the marketplace. Presumably if any agencies wish to use the GDS as a technology provider but not the provider of content, different commercial models will apply given that in today's world the GDSs typically earns booking fees every time the agency makes a booking. Technology services are typically provided as part of the broader relationship. As always it will be interesting to see how these commercial models develop, although this subject is clearly not appropriate for industry coordination.

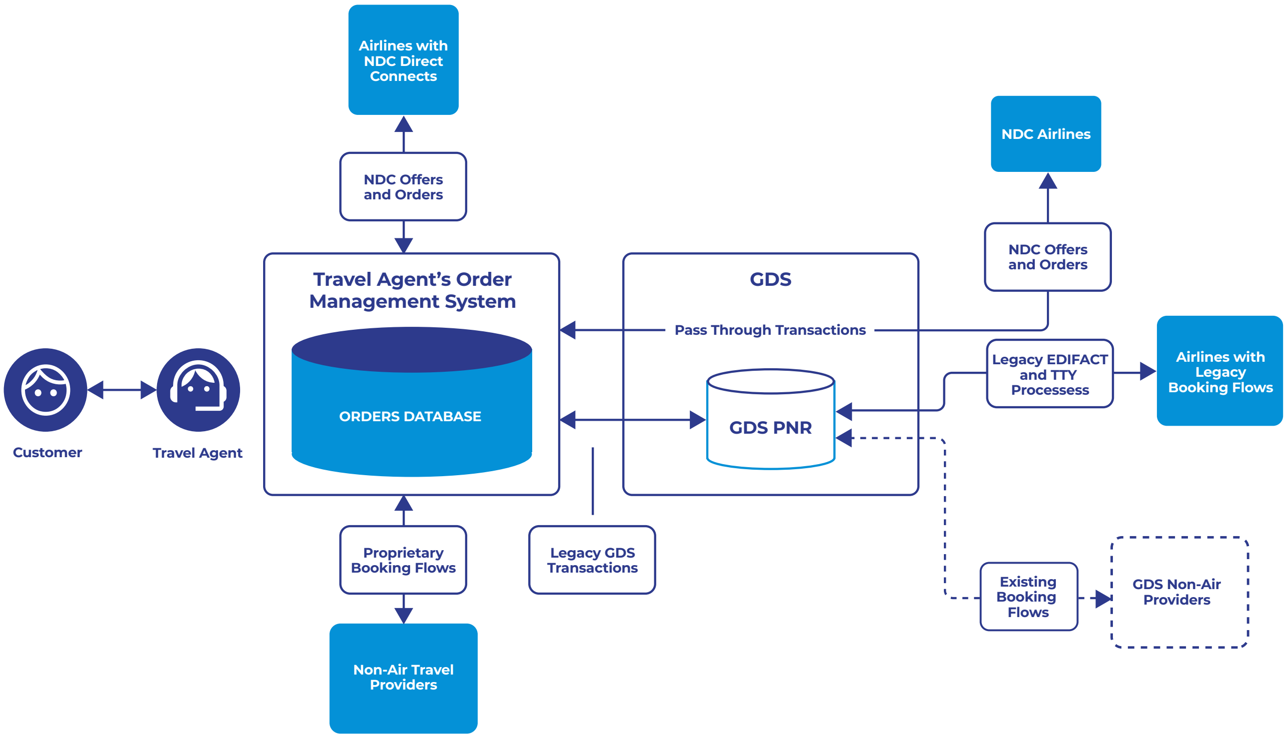
An Alternative Way Forward

While the GDSs will continue to offer service to those agencies that want it, large and sophisticated agencies should be considering alternatives. One of the promoted benefits of the ONE Order standard is that customers will only need to be aware of a single Order identity that covers all the travel in their itinerary. This will only be partially delivered under the GDS Super PNR approach.

> The ideal of a single Order ID would be achievable if agents were able to create Orders in their own right and have the airline's Order ID recorded within it. Fortunately the building blocks to allow this are already in place.

IATA's proposed new standard for interline sales is based on a contract called the SRSIA (Standard Retailer Supplier Interline Agreement). This defines the airlines in an interline agreement as Retailer and Supplier and assumes that both airlines are using Offer and Order Management Systems. Travel sellers shop with the Retailer which in turn shops with the Supplier for the segments it can't offer from its own inventory. Both airlines create an Order in their respective OrMSs and they are cross-referenced so that the customer only needs to use the reference from the Retailer airline's system. In this scenario the Retailer airline's Order is the master record of the transactions but it only holds the services that are booked by the airline.

Large travel sellers are very unlikely to book all elements of a journey through an airline's system. They will have to have a way of managing services bought from the airline alongside products bought from other providers. This could be achieved if they had Offer and Order Management Systems capable of interacting with airlines using the same messages as those envisaged in the SRSIA. In this way the travel seller would create Orders including both airline content and content from other suppliers. The seller's Order ID would carry through into airline delivery processes.



If an arrangement like this were to be established there would be many details to be resolved. The current standard for constructing Order IDs assumes an airline identifier as the first part. This would need to be extended to accommodate a travel seller's identifier. Probably the most significant change would be the establishment of a standard contract between travel sellers and airlines. Given that IATA is already responsible for travel agency accreditation through the Passenger Sales Agency Agreement (PSAA), it could also manage the extended contract. The SRSIA can provide a model but of course commercial relationships between airlines and travel agents are different to those between different airlines.

> In terms of the technology requirement, agencies would need Offer and Order management systems, either built by their own IT departments or sold by technology companies.

These could be based on existing mid-office systems enhanced to use the message sets from NDC. Several vendors in the marketplace have products that could be feasibly adapted if the demand were there. Airlines would need to make adaptations in their Offer management systems but these should be relatively small. Industry settlement systems like BSP might need to be updated.

Even with all the challenges involved T2RL believes that this approach should be investigated.

> The current approach to OOSD seems to offer little to the travel seller but integrating them fully into the environment offers opportunities for all parties to see the benefits of modernisation.

This approach is one path forward that might provide a solution. There may be others if airlines, travel sellers and others in the value chain engage in constructive discussions that seek solutions beneficial for all parties.

Conclusions

All of the discussion of the move to OOSD so far has been dominated by airlines. Just as with the announcement of NDC a decade ago, scant regard has been paid to the needs of travel sellers. It is not clear to T2RL if this is because airlines have not encouraged travel sellers to participate, or whether travel sellers have not put enough resources into this subject – or a combination of both. Perhaps the parties were not ready for these discussions previously, but it seems to T2RL that this is now urgent.

> Travel agents will only embrace OOSD if it offers real benefits to themselves and their customers.

Benefits may consist of access to compelling content that is unavailable in any other way but if that comes at the cost of further complicating the agency's job and creating inefficiencies it will not improve relations between airlines and agents.

> There is an opportunity to use the possibilities opened up by OOSD to create win-win-win results for airlines, sellers and customers.

If airlines try to reserve all the benefits to themselves it will likely impede the adoption of new techniques. If travel sellers do not engage in the process then they may find many decisions have been taken without their involvement. The industry is notoriously slow-moving when it comes to introducing modernisation. It should seize any opportunity to improve that track record and we urge all players to get involved in this key subject.

For further analysis and discussion on the transformation to Offer, Order, Settle, Deliver please listen to our podcast on the subject available here:

Please scan or click the QR code to view

T2RL Travel Technology Research Ltd is an independent sourcing and research company that specializes in airline technology and distribution. Based on data since the year 2000 it has tracked industry trends for airlines as well as their IT providers, distribution partners, and customers. All parties use its research to make informed business decisions to meet current and future needs. For further information, visit our website at **www.t2rl.com.**